금융감독원 FINANCIAL SUPERVISORY SERVICE

The following is the full text of the address that Governor Zhin Woong-Seob delivered at the General Membership Meeting of the American Chamber of Commerce in Korea on Wednesday, November 11, 2015.

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Good afternoon, ladies and gentlemen,

Before I begin, I want to take a moment to thank Chairman James Kim and President Amy Jackson for inviting me to speak at today's General Membership Meeting. To many, AMCHAM represents a symbol of friendship and cooperation between Korea and the U.S. for the past 60 years. So it's my great pleasure to have this opportunity to speak to you today.

Today's topic is about our ongoing regulatory reform, which I can also characterize as a force for change for the better. Some of you who have been here for a while may recall our past reform efforts. This time, we are going beyond changes to policy and regulatory frameworks to tackle deeply entrenched perceptions, biases, customs, and cultures that have long shackled our financial sector. So there are some important distinctions to be made about what we are now trying to achieve.

You know, looking back, I think we can say that financial liberalization during the 1990s drastically reshaped Korea's financial landscape and paved the way for future growth. Indeed, as Korea's real economy surged, the financial industry experienced significant expansion as well.

As a whole, the financial sector has performed well over the years. It was severely tested during the 1997 and the 2008 financial crises but managed to bounce back quickly on the back of timely policy response and aggressive reform. The IMF also recognized this and gave Korea's financial sector a higher financial development index score (0.83) than the average score for the developed countries (0.73) in 2013.

Korea's financial sector owes some of its success to its own efforts and changes. But part of the credit must also go to the support and cooperation from the global financial community. So I would like to express my appreciation for that as well.

Yet, despite all the past successes, there is an urgent sense that Korea's financial sector must now head in a new direction with some important changes. Let me quickly explain why I say this.

First, the financial industry needs fresh thinking and new approach. If you look at domestic financial firms' asset growth and earnings since the 2008 crisis, you will see that both have been steadily declining.

I would stress that it is not just the unfavorable macroeconomic environment of low growth and low interest rates that contributed to the industry's prolonged sluggishness. It is also due to financial firms competing with each other mostly at home with similar products and services without much innovation or differentiation. So, financial firms can no longer carry on business as usual. Instead, they must work to spark new dynamism and growth with bold business reform.

Second, we sense that we need to push for greater market freedom with greater accountability to help revitalize the financial industry. I say this in part because efforts to deregulate and unleash the market's creative potential have unintentionally been held back by the so-called "shadow regulation," which was initially intended to protect the soundness and stability of the financial markets. By shadow regulation, I mean practices like ex ante reporting, best practice recommendations, and the so-called "window guidance."

One particular problem with regulators approving financial firms' business beforehand is that it discourages financial firms from taking their own initiatives. It also forces financial firms to look to regulators for business decisions. Such regulatory regime obviously adds to the compliance cost financial firms bear.

So we need to re-think and re-assess this to set financial firms free from unnecessary or excessive regulatory interference. In short, what we should aim for is a better-balanced regulatory system.

Third, the public's confidence in financial firms has been falling, so the financial industry must work to restore it. In the wake of the 2008 financial crisis, the focus of regulators across countries shifted to consumer protection. The same has been true for us as well.

But what we often observe is financial firms abusing their superior bargaining positions to disadvantage consumers, practicing ineffective internal controls that lead to consumer losses, and focusing exclusively on short-term gains. In the end, it is consumers who suffer and lose the most. Trust and confidence in financial firms as a whole then obviously suffer.

Unfortunately, cross-country surveys by the World Economic Forum or WEF, IMD, and others imply this problem as well. So the financial industry must work to turn around the unacceptably low consumer trust and confidence in financial firms' business practices and conduct.

Lastly, cross-border trade in financial services including investment banking has expanded greatly over the years as the global economy grew. However, for Korean financial firms, both the share of business in foreign markets and the share of non-Korean local customers in those markets have remained small.

For expanded international business, I think domestic financial firms can offer globalized investment and asset management services in foreign markets. Many would also say that domestic financial firms must work to build retail customer base in foreign markets and generate revenue from it as a key part of their globalization strategy. It simply would not suffice to rely on Korean companies that operate overseas for revenue from international businesses.

Ladies and gentlemen,

The four perspectives I just presented all point to the need for a fundamental shift in the way financial firms are regulated and the need for consumer-focused financial sector reform.

Here, I think we are talking about nothing less than a genuine shift in the paradigm that has more or less governed Korea's financial markets over the years. The shift I am thinking of should start with an overhaul of the basic framework for markets. It is a shift in focus from policy making to market making, from regulators to financial firms, and from market protection to consumer protection. It is a bottom-up approach from the market, not top-down.

The aim of the bottom-up approach I just spoke of is to help financial firms carry on their business with greater freedom and less regulatory interference than before. The bottom-up approach must also promote competition in the market and raise consumer confidence. These are in fact the kinds of positive changes we are trying to bring about.

Let me point out a few. In respect of new product or business development, we changed the reporting rules so that financial firms do not have to report it in advance. We also announced no regulatory interference in financial firms' pricing and fee determinations for their products and services.

We are also moving from intrusive full-scope examinations that usually focus on uncovering wrongdoing and misconduct to off-site monitoring. And when our off-site monitoring signals something out of ordinary, we will conduct an on-site assessment. If necessary, we will follow up with a targeted examination to help identify areas of weakness and improve them. As we do so, we intend to intensify our supervision of financial firms' internal controls, risk management, compliance, and governance.

With respect to enforcement actions we take following an examination, we are going to switch from sanctions against individual employees to fines and other adverse actions against the company. Let me add that, for minor rule violations uncovered, we are going to let the financial firm deal with them.

Under the new supervision paradigm, the FSS and financial firms will strike a better balance on what their respective powers and responsibilities are. We also expect the new approaches to help improve the timeliness and efficiency of our supervision and ultimately reduce compliance cost to financial firms.

We also hope to contribute to market dynamism by leveraging deregulation to promote the growth of new products and services. I think fintech—or financial technology—is a great example of this. To this, I would add Internet bank, online insurance supermarket, new electronic payment services, and others combining finance and technology.

We are also encouraging more diversified pension products, insurance products exclusively for people with pre-existing conditions, and a wider range of activities for private equity funds. What we expect from these changes is that they will act as a catalyst for competition and help unleash the market's growth potential.

Let me now say a few words about our consumer protection policy.

As we work to bring about positive changes to the way we supervise and the way financial firms interact with consumers, we will continue to expand and reinforce our consumer protection measures. To this end, we will work to put consumers at the center of interactions with financial firms by rooting out business practices and conduct that harm consumers. I believe doing so will help restore consumers' confidence, which has suffered because of improper or unfair business practices and conduct by financial firms.

Some of you may recall that the FSS has been working on "20 major reform tasks for consumers" to bring positive changes to financial firms' customs and practices that ordinary consumers can actually feel. Another major consumer initiative is combating the "5 malevolent acts" that can financially ruin ordinary people who fall victim to them.

For us, these two consumer initiatives represent a new start, a new commitment, to consumer protection. Because consumer protection has traditionally been overshadowed by safety and soundness supervision, we see the two initiatives as an opportunity to bring significant enhancement and benefit for everyone.

Lastly, I would like to say a few words about our hope for more open communication and interaction with financial firms and the market.

As you know, I regularly meet with the heads of domestic and foreign financial firms at various occasions and forums to discuss financial supervision as well as issues of interest and concern to financial firms. I believe such engagement helps the market better understand what we try to accomplish and contributes to the transparency of our supervision.

You know, when I talk or listen to market professionals and others about ideas and proposals for change, I can sense a great deal of interest and hope. So, in the face of continuing uncertainties and reservations about what lies ahead, I would argue that meeting the challenges ahead starts with embracing our very own, forward-looking reform.

I have no doubt that the success of our reform will mean more, better opportunities to succeed for foreign financial firms in Korea. As many of you know already, we brought major changes to IT outsourcing rules to help foreign financial firms better manage their IT resources and reduce cost. The changes came about as a result of continued engagement with foreign financial firms. And we will work to make sure that such positive changes continue in Korea.

I very much appreciate your strong interest in what we do. And I hope that foreign financial firms continue to grow and succeed in Korea not only as a business enterprise, but also as a contributing and sharing member of our community.

Ladies and gentlemen,

Alexander Hamilton, America’s first Secretary of the Treasury, was a great visionary who is credited with founding America’s financial system. As we work to upgrade our financial system to the next level and revitalize the financial industry, I think our reform drive can benefit from leaders like Hamilton with the vision to look far for the very best of what we can achieve together. I include every one of you in that group.

So I take this opportunity to ask you to add your voice to the changes we hope to make for the good of everyone. Lastly, I am sure you agree that, like a deeply rooted tree, the friendship the U.S. and Korea have built over the past several decades will only get deeper and stronger. I am sure the very same holds true for financial sector cooperation between the two countries as well.

I close with my thanks to AMCHAM Chairman James Kim and President Amy Jackson once again for giving me a chance to speak before such an important audience.

Thank you.